

# Beyond financials: Helping small and medium-size enterprises thrive

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By [Diaan-Yi Lin](#), Sruthi Namratha Rayavarapu, Karim Tadjeddine, and Rebecca Yeoh

Small and medium-size enterprises are facing compounding challenges. Governments and other institutions worldwide are launching programs to provide them the advisory support needed to meet the moment.

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**S**mall and medium-size enterprises (SMEs) contribute significantly to economies around the world (see sidebar, “What are SMEs?”). In OECD countries, SMEs account for about 99 percent of firms and 70 percent of all jobs,<sup>[1]</sup> and they contribute more than 50 percent of GDP in high-income countries worldwide.<sup>[2]</sup> But between February 2020 and April 2021, 70 to 80 percent of SMEs across 32 countries lost between 30 and 50 percent of their revenues.<sup>[3]</sup>

Because they understand that threats to SMEs are threats to economies and societies, governments around the world have made supporting SMEs a priority throughout the COVID-19 pandemic through programs such as direct financial assistance, public guarantees on loans, and tax relief.<sup>[4]</sup> While such financial support is beneficial, it does not necessarily set up firms to thrive in the long term and to combat the many converging challenges they're facing, including pressure to decarbonize, internationalize, keep up with digitalization, and secure the right talent. In addition, many of these supports are on the verge of expiring.

Indeed, a Canadian study showed that the most effective way to support SMEs is by pairing financial support with advisory services.<sup>[5]</sup> One way to provide this dual support is through National Champion Programmes. Such programs typically work to identify SMEs with high growth potential and provide them with the one-on-one support they need to realize this potential over a defined period of time. Support could include building capabilities (such as digital, marketing, and leadership skills), providing advice from experts on how to navigate the market, guiding transformation efforts, and arranging introductions and networking opportunities.

A handful of existing programs and research from countries around the world—Canada, France, Malaysia, Singapore, the United Kingdom, and the United States—reveal several best practices for governments looking to support SMEs through the challenges they face. Specifically, these programs suggest that governments can help set up SMEs to thrive well into the future by focusing on midsize companies, employing a rigorous selection process, targeting specific groups and tailoring solutions to their needs, providing incentives for commitment, and partnering with the private sector.

## **Challenges and opportunities for SMEs today**

The imperatives facing SMEs a few years ago have become more pronounced as the world shifts to the next normal, presenting both challenges and opportunities.

## Keeping up with digitalization

Most of the world is working to digitalize, a trend that has accelerated over the course of the pandemic, and SMEs are at risk of being left behind.

A July 2020 survey of executives reveals a rapid shift toward interacting with customers through digital channels, with adoption rates years ahead of where they were in previous surveys. The shift is particularly pronounced in Asia–Pacific, where the share of digital consumer interactions has advanced by four years, higher than the global average.

The shift to digital persists across countries and categories, as consumers in most parts of the world are engaging less with retailers outside the home. The online customer base across countries for food and household products, for instance, has grown by more than 30 percent, on average, since before the pandemic.

While such growth certainly comes with benefits, these benefits have disproportionately accrued to larger businesses. The top decile of companies by size in digital channels capture 60 to 95 percent of digital revenues. And small firms remain less digitalized than medium-size firms—and medium-size firms less than large firms.<sup>[6]</sup> Behind this reality is the fact that digital solutions are often designed for large enterprises and are difficult to scale down for SMEs. In Singapore, for example, 56 percent of respondents to a survey reported that digitalization is too expensive for SMEs.<sup>[7]</sup> The effects could be more significant for underrepresented segments; in the United Kingdom, for example, a report found that female-led SMEs are 20 percent more likely to opt out of digital solutions to improve productivity.<sup>[8]</sup>

## Internationalizing strategically

Several studies reveal that SMEs need to internationalize to grow,<sup>[9]</sup> but they often struggle to expand outside their home market or to do so strategically. Even prior to the COVID-19 pandemic, high-potential SMEs in many markets found success domestically, but their potential was capped by the size of their local market. Unlike large companies, many SMEs don't have the resources to conduct extensive market research before expanding into new markets, instead following opportunities and growing only marginally.

In the European Union, nearly all of the 20 percent of small businesses with e-commerce sales sell within their own economy. Fewer than half of these businesses—representing only 8 percent of the overall market—sell in other EU countries. Only 4 percent sell outside of the European Union. A similar trend is true among medium-size firms.<sup>[10]</sup> In the United Kingdom, SMEs that have ambitious growth targets for the next five years have twice as much turnover from exports, with nearly 40 percent of their sales coming from online channels.<sup>[11]</sup>

Uncertainties about overseas markets brought on by the pandemic have made internationalization more difficult. Indeed, in a survey in Singapore, 84 percent of SMEs stated that they had delayed their internationalization plans because of the pandemic and the challenges it has exacerbated.<sup>[12]</sup> Additionally, global supply chain issues have hit SMEs hard and have set back export growth. A June 2020 survey in the United States revealed that 45 percent of small businesses had experienced disruptions in supply chains.<sup>[13]</sup> And in many cases, leading firms have handed risks down the supply chain to vulnerable SMEs in developing countries, causing job losses and even bankruptcies.<sup>[14]</sup>

## **Delivering on decarbonization commitments**

Many governments are ramping up efforts to decarbonize. In the United States, President Joe Biden announced a target for the country to achieve a 50 to 52 percent reduction from 2005 levels in economy-wide net greenhouse gas pollution by 2030.<sup>[15]</sup> The European

Union aims to have net-zero greenhouse gas emissions by 2050.<sup>[16]</sup> And at the 2021 UN Climate Change Conference (COP26), countries from around the world agreed on a resolution to cut emissions—albeit falling short of the efforts needed to limit the temperature increase to 1.5°C.<sup>[17]</sup>

However, according to a survey by YouGov for energy firm World Kinect Energy Services, 40 percent of SMEs in the United Kingdom haven't made a sustainability plan—and 30 percent don't intend to.<sup>[18]</sup> Indeed, SMEs are less well equipped than larger companies to decarbonize. The survey revealed that 29 percent of SMEs say the pandemic has thwarted sustainability efforts by forcing companies to focus on survival. Furthermore, SMEs may not have the resources to tackle such efforts. And while many decarbonization programs allow companies to realize cost savings relatively quickly, the up-front investments required can hinder SMEs from pursuing them.<sup>[19]</sup>

## Acquiring critical talent

**Lack of the right talent and capabilities has thwarted the ability of SMEs to manage all of the challenges they face.**

Lack of the right talent and capabilities has thwarted the ability of SMEs to manage all of the above challenges. Indeed, SMEs tend to struggle to acquire digital talent: 40 percent of respondents to a survey in Singapore stated they lack the digital skills to successfully adopt new technologies.<sup>[20]</sup> Also in Singapore, the struggle to expand internationally is attributed to three primary challenges: trouble attracting the right talent, limited financial resources, and unfamiliarity with the regulatory environment overseas.<sup>[21]</sup> And a lack of in-house expertise can inhibit the decarbonization efforts of SMEs. SMEs also tend to have smaller R&D departments than larger firms and finance functions that focus more on accounting than strategy, potentially making it difficult to grow.<sup>[22]</sup>

The “Great Attrition” is likely to upend the ways all businesses think about talent. Between April and September 2021, more than 19 million US workers quit their jobs. And according to [a recent McKinsey survey](#), 40 percent of respondents are at least somewhat likely to quit in the next few months. This trend could calcify talent challenges for SMEs—or present an opportunity to attract talent leaving other roles.

## **Five lessons for supporting SMEs through National Champion Programmes**

National Champion Programmes go beyond financial interventions to provide nonfinancial support—such as advisory, transformation, capability-building, and networking opportunities—to help high-potential SMEs tackle challenges and achieve their goals. Such programs have proved to be an effective way for governments and other interested institutions to assist SMEs. Indeed, a program in Malaysia has helped facilitate an export increase of 4.9 billion ringgit (approximately \$1.16 billion) across 275 companies.<sup>[23]</sup> And the first participants in a program in Singapore expect to achieve 20 percent year-over-year growth over the next three years.<sup>[24]</sup>

National Champion Programmes around the world reveal a handful of lessons about unlocking growth and innovation that could help these companies not only weather the current crisis but also overcome the compounding challenges they face.

## **Focusing on midsize companies can maximize impact**

Existing programs have demonstrated that programs can achieve the most impact within the realm of SMEs by focusing on midsize companies. These companies have a disproportionate impact on economic outcomes. They also tend to have a demonstrated track record of

success, including an ability and willingness to grow and a strong financial history, making them more likely to be able to implement advisory support.

Indeed, in Canada, midsize companies constitute 1.6 percent of all firms, yet they contribute 12 percent of GDP and 16 percent of employment—and they account for 11 percent of all exporters and 17 percent of export value.<sup>[25]</sup> Midsize companies in Malaysia, which represent 2 percent of all firms, are critical economic players; they contribute about 40 percent of the country's GDP and employ more than 16 percent of the workforce.<sup>[26]</sup>

The highest-performing companies, including midtier companies, contribute even more, achieving 20 percent year-over-year growth<sup>[27]</sup> and accounting for 50 percent of new jobs and sales, particularly in the manufacturing and services sectors.<sup>[28]</sup> By targeting these companies, then, National Champion Programmes stand to have an outsize impact on the country's economy and workforce.

## **Personalized outreach can help identify and recruit the companies with the highest potential**

Existing programs have demonstrated the importance of targeting companies with high potential through rigorous selection processes—including getting to know them one on one.

Companies with the highest potential tend to have the greatest chance of delivering the desired economic benefits, including increased revenues, exports, GDP, and employment. To ensure support goes to those with the highest potential, some governments have employed stringent selection processes that test for this potential, looking at quantitative data about the company and its history, as well as qualitative criteria such as the scale of ambition and the presence of growth mindsets.

For example, Scale-up SG, a 12- to 18-month program in Singapore, helps selected high-growth companies scale to become major employers and leaders in their field. The criteria for selection for this program include that the company have a track record of growth; leadership with strong ambitions and a clear growth strategy; high potential for economic spin-offs, such as creating job opportunities; and bandwidth to dedicate significant management time and resources to accelerate growth.<sup>[29]</sup>

To attract these high-potential companies, existing programs have found that they need to be able to understand each SME's unique needs and address them on a case-by-case basis. Rather than taking an automated or mass-outreach approach, program representatives reach out personally to companies, building relationships with them to ensure the program is a good fit, to understand their starting point, and to explain how the program will benefit them. Such tailored outreach is particularly relevant for ensuring inclusion of minority- and women-led businesses.<sup>[30]</sup>

## **Targeting a specific group of companies and tailoring programs to their needs**

While SMEs might be similar in scale, they span nearly all sectors and vary in capabilities, challenges, and objectives—therefore requiring varying kinds of support. However, SMEs are not always well equipped to identify the type of support they need. A report from the United Kingdom found that SMEs use about 20 different sources to find the right program, and 72 percent of them research for at least 30 hours a week for three weeks before deciding to join.<sup>[31]</sup> Existing programs reveal that the most effective programs tailor support to companies' specific needs by doing two things:

First, they limit their scope by targeting specific groups of SMEs that have shared objectives. These objectives often relate to the challenges SMEs are currently facing, including internationalization and digitalization. For instance, Malaysia's Mid-Tier Companies Development Programme (MTCDP) focuses on midsize companies in the manufacturing and



service industries aiming to grow exports of goods and services.<sup>[32]</sup> The Industry 4.0 Human Capital Initiative (IHCI) program in Singapore targets manufacturing companies that are looking to digitalize their operations and thus focuses on relevant Industry 4.0 applications.<sup>[33]</sup>

Second, they recognize that not all companies—even those within a specific group—have the same needs. Thus, they employ a range of interventions for these companies to choose from, and they support them in navigating the options to create a program that best fits their needs.

MTCDP, for example, begins with a three-month diagnostic phase to identify companies' most acute needs and relevant interventions. This process comprises a survey that helps reveal export challenges that SMEs are facing, interviews with top management, and a diagnostic clinic during which interventions are ultimately chosen.<sup>[34]</sup> Scale-up SG likewise begins with a “strategize” phase; over four months, companies work to align on growth priorities and develop and commit to a road map for growth and targets.<sup>[35]</sup>

In Canada, the Growth Driver Program run by the government-owned Business Development Bank of Canada (BDC) provides selected companies across all sectors with formal management training, peer-to-peer networking, and other tailored nonfinancial services. A small team of highly experienced advisers works with firms to assess their needs and identify solutions to their challenges, including planning a multiyear growth outlook and preparing a management plan—as well as providing targeted support for CEOs and leadership teams.<sup>[36]</sup>

## **Pursuing SMEs that are highly committed to making a change**

**SMEs have diverse needs, and governments have the power to provide support for them.**

National Champion Programmes typically involve a blend of strategic advisory, delivery, and capability-building support. Translating this support into results requires a high level of commitment from SMEs. Programs can use a number of tactics to encourage companies to commit not just to completing the program but to implementing what they learn and making new strategic moves.

For instance, Scale-up SG requires that SMEs pay 20 to 30 percent of program costs.<sup>[37]</sup> MTCDP in Malaysia similarly requires participants to cover certain costs, such as travel expenses; the program also expects CEOs and senior management to commit to the program for about one day per month over the course of nine months.<sup>[38]</sup>

## **Tapping the private sector for expertise and access**

SMEs have diverse needs, and the government has the power to convene the different players in an economy to provide this support. Private-sector companies, for instance, can not only lend their expertise to SMEs by acting as advisers; they can also potentially provide them with access to larger clients and investors and help them build capacity.<sup>[39]</sup> Ultimately, these partnerships can put SMEs in a better position to tackle the many challenges they face and to continue to grow.

Detroit Means Business (DMB) in the United States provides an example of such a partnership. DMB is a coalition of more than 60 public, private, and philanthropic organizations; Detroit-based business-support organizations; and civic-minded small-business entrepreneurs. Participants include the City of Detroit, many private-sector institutions, Invest Detroit, and Detroit Economic Growth Corporation.<sup>[40]</sup> These groups came together early in the COVID-19 pandemic with the goal of helping SMEs survive by giving them access to support, such as financial resources, webinars on time-sensitive

topics, and information about personal protective equipment (PPE) and reopening guidelines. As the COVID-19 pandemic has persisted, the coalition has evolved its initiatives, deepening digital capabilities, driving local procurement, and helping individual small businesses grow.

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SMEs are crucial actors in economies and societies worldwide. These businesses make outsized contributions to GDP, exports, employment, and livelihoods in developed and developing countries alike, but they're facing increasing threats that could undermine their growth and ability to contribute meaningfully. Learning from existing National Champion Programmes, governments across the globe have an opportunity to help SMEs continue to thrive—through the pandemic and well into the future.

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## ABOUT THE AUTHOR(S)

**Diaan-Yi Lin** is a senior partner in McKinsey's Singapore office, where **Rebecca Yeoh** is a partner; **Sruthi Namratha Rayavarapu** is a consultant in the Bangalore office; and **Karim Tadjeddine** is a senior partner in the Paris office.

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